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General Accounting Policies as Applied to Banks*

By WALTER A. STAUB

A number of times during the last several years I have heard business men say, sometimes laughingly, sometimes in an irritated manner, "I wish I were permitted to make up my company's financial statement in the same way that our bank makes up its statement." With this in mind, it is not my purpose to deal with the internal accounting of a bank, but to confine my remarks to accounting principles insofar as they affect the financial statements of banks issued to the public.

For many years I have attended meetings of accountants' organizations at which a banker was invited to speak on the subject of "What the banker expects of the accountant," or some similar topic. Almost invariably the banker states that the bank wants the truth, the whole truth and nothing but the truth, and then proceeds to urge that accountants use their influence to encourage the submission to bankers of more complete and informative financial statements by borrowers.

The banks are among the largest borrowers in the world. The total bank deposits in this country in June of 1933 were estimated at thirty-seven billion dollars. Is it too much to ask the creditors to the extent of thirty-seven billion dollars be furnished with the same "whole truth" that the bank expects from its debtors? Is there any other class of creditors to the extent of thirty-seven billion dollars who would be satisfied with the meager information now furnished by many banks to their depositors? Since under the new Banking Act deposits (the loans from the depositors to the banks) are made largely without interest, are not the depositors entitled to even more information than heretofore to satisfy them that their noninterest bearing loans are safe?

In addition to the obligation of the bank to its depositors, the bank has an obligation to its stockholders; that is, to the real owners of the bank. Is there any real reason why the owners of a bank should not receive as much information re-

*An address delivered in 1934 at the request of the Eastern Regional Conference of Bank Auditors and Comptrollers. See editorial, Bank Statements, on page 24.

garding their business as the owners of any other business? Years ago, industrial enterprises furnished little real information to their stockholders. It was contended that the dissemination of too much information would injure the stockholders by giving too much information to competitors. I remember what a shock it was to a great many corporations when Judge Gary, then Chairman of the Board of the United States Steel Corporation, in 1900 or 1901 issued its first annual report, which included far more detailed information and far more complete data regarding its financial position and operations than had theretofore been customary with industrial corporations.

A great many corporations were very hesitant in approving this policy. I am not sure that all of them believe yet that Judge Gary was right, but the policy on which he started the Steel Corporation with regard to the annual reports issued to its stockholders was that the stockholders were entitled to a full picture (or disclosure, as we so often say in referring to statements) of the financial position of the company and the results of its operations. As the years have passed the fear that adequate disclosure to stockholders would be injurious has greatly subsided in the case of industrial corporations and to a considerable extent in the case of railroads and public utilities, which issue fairly detailed reports. Some of our largest and best managed corporations publish most complete information regarding their affairs. The New York Stock Exchange has done a great deal to encourage the issuance of more informative and conservative financial statements by corporations, the securities of which are listed on the Exchange.

The Robert Morris Associates, one of your sister organizations, has done splendid service in encouraging the submission of more complete and informing financial statements by those seeking credit from banks and other credit grantors, and has made a valuable contribution in the credit granting field by its continuous study of the principles underlying financial statements. Its long continued cooperation with the public accountancy profession has been greatly valued by that profession. I regret to say, however, that the general opinion among those familiar with financial statements is that, although there has been some improvement in the financial statements of banks—and in some particular instances there has been marked progress—in general the banks have lagged behind in this movement.

Someone was good enough to show me copies of two recent addresses made by Mr. Francis B. Flahive, Treasurer of the Columbia Gas & Electric Corporation, one entitled "Analysis of Commercial Bank Statements From the Depositor's Point of View," delivered be-

fore the Accounting Section of the American Gas Association, and the other, on "More Informative Bank Statements," delivered before the New York City group of your organization. Some of the comments by Mr. Flahive, who has evidently made a careful study of the subject, are illuminating as indicating the impression made on the financial and accounting officer of a corporation which maintains hundreds of deposit accounts in banks distributed over a large area. I quote a few of his comments in describing how he endeavors to determine whether the banks in which his company deposits its funds are sound and can be depended on to repay the deposits when the company wants them. He says:

> For determining the liquidity, we take the Federal securities, if any, deduct circulating bank notes—if we are analyzing a national bank—and assume, for lack of specific information, that the balance is free and unpledged. Please do not understand me as saying that the sum of the unpledged Federal securities plus cash resources represents all of the liquid assets of the bank. Some of the miscellaneous securities are undoubtedly liquid, but we have no way of determining, from the majority of bank statements, what proportion. Some of the loans are probably eligible for rediscount, and therefore, very liquid. We might, of course, take some arbitrary percentage of the loans as representing the proportion of eligibles and add that to the liquid assets in all cases before working the ratio, but we prefer not to as long as the bank does not so segregate them.
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> If you discuss this formula with your banks, you may be told by some of them, as I have been told by bankers on certain occasions, that the published statement of a bank is not sufficiently reliable. A good many bankers believe this because they have never had occasion to put much reliance on the published statement, having become accustomed to viewing the banks in which they are interested, from the inside rather than from the outside. We, however, have to take a look from the outside, by using such information as is made public. The method of analysis is severe. It doesn't give the bank the benefit of all the doubts, but I see no alternative until less misleading and more informative statements are made available to depositors.

I shouldn't like you to get the impression, those of you who haven't read Mr. Flahive's address, that these quotations are typical of the entire content of both of his addresses. On the contrary, his addresses are written in an admirable tone, they are considerate of the difficulties and problems of the banks, and he, too, was endeavoring to be constructive in his criticism; I simply give these quotations as indicating the impression that a man in a responsible financial and accounting position with a very large corporation, having many bank accounts, receives as a result of reviewing and studying the average bank statement.

You are all familiar with the narrative type of balance sheet issued by some banks. The Corn Exchange Bank in New York, I think, was the pioneer in that respect. The

form of statement it publishes was, I think, started at least twenty years ago and is now used by a number of banks in different parts of the country. It also furnished a suggestion to some industrial corporations. You will find that certain public utility and industrial companies use an adaptation of that method in preparing statements for their stockholders. Though this type of balance sheet is useful to explain the principle of bookkeeping to the uninitiated, it is really no more informing as to the bank's financial condition than the conventional statement, if it doesn't proceed any further with respect to the disclosure of vital information.

In the comments which I am to make regarding the financial statements of banks I lay no claim to originality. No one is better acquainted with the weaknesses in these statements than the accounting officers of the banks, and I have no doubt that they would all prefer to prepare these statements in accordance with recognized accounting principles. The fault is the fault of a tradition, and traditions may best be modified by open discussions of this kind.

At the outset, I am going to violate one tradition. When discussing the financial statements of banks it is customary to confine the discussion to the balance sheet. I contend that one of the chief weaknesses of the financial statements published by banks is the absence of an income statement. In a communication to the Committee on Stock List of the New York Stock Exchange by a Special Committee of the American Institute of Accountants the following statement was made:

> The principal objects which this Committee think the Exchange should keep constantly in mind and do its best gradually to achieve are: . . . (3) To emphasize the cardinal importance of the income account, such importance being explained by the fact that the value of a business is dependent mainly on its earning capacity; and to take the position that an annual income account is unsatisfactory unless it is so framed as to constitute the best reflection reasonably obtainable of the earning capacity of the business under the conditions existing during the year to which it relates.

That statement was doubtless made primarily with industrial corporations, and possibly public utilities, in mind. We all recognize that there are some special features that distinguish a statement of the financial condition of a bank from the statements of industrials and public utilities. In the case of industrials and public utilities a very considerable part of the assets usually consists of fixed assets, property and plant, the realizable value of which, if offered for sale, would ordinarily be but a tithe of actual or replacement cost. A good example of that is a railroad in the Middle West which those of you who have been in banking for a good many years would recall as one of the premier railroads in the country in respect

to its earnings and the excellent reputation it enjoyed. Its securities, particularly its bonds but also its stock, ranked high indeed. Some years before the war someone got the idea that, instead of being content with serving the Middle West area in which it was located, it ought to run out to the Pacific Coast, and a splendid piece of railway and engineering construction work was done in building a line from the Middle West to the coast. Judging from engineering reports that were published some years ago, even today that road could probably not be built for the sum that it cost when it was built previous to the outbreak of the World War. But that road has been a financial millstone around the neck of the railroad company which constructed it because in some years it didn't even earn operating expenses, let alone its fixed charges.

Now, to value the property of that railroad on the basis of what it cost to replace it would be obviously to attach a value that the stock market at least does not recognize as being valid or dependable. The question in that case is what will the road earn, and if it can't earn a fair return on the cost of the property, the present value will have to be marked down to a capital figure which would have some relation to its possible earnings.

In the case of a bank we have a somewhat different situation. With relatively few exceptions, the real estate item in a bank statement does not have the same importance in relation to the rest of the assets or in relation to the total assets that it has in the case of an industrial or public utility. The assets of a bank, if fairly valued and stated on the basis of accounting principles that I shall refer to later, more nearly represent realizable values than the assets of most unprofitable industrials or utilities. However, even that statement has to be made with some qualification because I think it has been the experience of conservators and receivers of closed banks during the last few years that it is difficult to realize in full even on loans which, if not gilt-edged, at least should yield a high percentage of their face value. Debtors take advantage of the situation to delay payment and gradually to create an atmosphere where the receiver or conservator is willing to compromise at a very substantial discount from the face value of the loan.

One of the large New York banks publishes a pamphlet entitled "What the Items of a Bank Statement Mean." The pamphlet contains the following comment:

> A bank statement shows the financial condition of the bank at any given date, but a comparison with previous statements is necessary to ascertain the progress that is being made. In addition to examining statements of his bank, however, a depositor should inquire into its administration, its management and the service that it renders.

The bank that publishes this

pamphlet follows the almost universal bank practice of publishing only a balance sheet unaccompanied by an income statement. A comparison of a balance sheet with previous balance sheets is illuminating and indeed necessary to ascertain the progress that is being made. However, can this progress be adequately ascertained without an income statement and surplus analysis? Can a depositor adequately inquire into the administration and management of a bank without examining its income statement and comparing the income statement with those of other banks? But, from the published reports of many banks it is impossible to determine the net profit or loss for the year, to say nothing of the details thereof.

Of course, I am approaching this question from the standpoint of the ideal because that is the basis from which discussions of this kind would naturally start. I wouldn't have you feel that I have no practical sense of approach to the problem. No doubt when the banks finally come to the point of recognizing that an income statement is a necessary part of the presentation of what is being accomplished by the management, both for the information of stockholders and depositors, we shall not immediately have an ideal statement. I hope I am an optimist, but I think we recognize that we do not leap to an ideal in one jump. The approach is cautious and gradual and as time goes on improvement is made, but I am stating now my thought, and I think the thought of accountants generally, as to what would be an ideal income statement and surplus analysis for a bank as a basis for whatever discussion you wish to carry on after I have finished my presentation.

An ideal income statement and surplus analysis would segregate the sources of income between interest on loans, income from investments, income from trust department and similar services, and from other sources. It would show separately profits or losses on the sale of investments and write-ups or write-downs in investments. It would show losses sustained on loans and reserves provided. It would show the amount of administrative expense and, in the case of banks owning large office buildings, it would show the results of the building's operations. It would enable a reader to form some idea of recurring and nonrecurring income and charges. It would enable a reader to check the conservatism of the loan policy and, by comparison with the statements of other banks as to the ratio of administrative expenses, etc., to form some idea of the efficiency of the management. In the case of banks operating a great number of branches in leased premises an income statement would indicate the rentals paid, which may be on a predepression basis.

The credit departments of the

banks are vitally interested in the income statements of the banks' debtors. Are the banks' creditors, its depositors, and stockholders not interested in, and entitled to, the same information regarding the banks?

Where necessary, the income statement and surplus analysis should be supplemented with an analysis of the reserve for contingencies. It has been shown to be important to know what goes through these reserves for contingencies because items may be charged to the contingency reserve which, if charged to the income account, might present a very different picture. We realize that there are abnormal items which perhaps would distort the current income statement if they were treated as charges thereto, but on the other hand, since they do not appear in the income statement of any year, should not the transactions which have taken place through the reserve for contingencies be disclosed so that one may know what these abnormal items are? After all, they do represent the disappearance of assets and must be taken into account to determine the net result of a given bank's operations over a period of years. You can't include the sweet and omit the bitter.

I want to make sure that I have made it sufficiently clear that in the case of industrials and public utilities the earnings very often determine the true value of their assets, more than the original cost, the cost less depreciation, or the present reproduction cost. What I said a few moments ago with respect to the different character of some of the assets of a bank, as compared with an industrial, or a public utility, doesn't, however, vitiate, to my mind, the principle that the earnings of a bank also have an important influence on the value of its stock, and for that reason the income statement has a double value in the case of a bank—one to indicate the result of management, the other, to assist in determining a fair value for the bank's stock.

In proceeding to discuss the balance sheet, I do not wish to give the impression that I think that all bank statements are bad, misleading, incomplete and so on. I shall rather attempt to enlist your thought, as well as contribute what I can of mine, toward emphasizing the respects in which bank statements can be made still better. They do give considerable information so far as they go, but there are still further respects in which I think they could be improved, and it is interesting that some of the suggestions that I am going to offer for discussion are actually in use in at least isolated instances.

Perhaps the most obvious question we might take up, because it is the one most affected, or at least as seriously affected as any other by depressed conditions, is that of investments. That item naturally

varies as among different banks; some have a larger proportion of their total assets in security investments than others, but in the last decade particularly, banks have put a larger and larger percentage of their assets into securities than was formerly the case.

It is rather unusual for the bank to indicate the basis upon which its investments are valued. That is not universally true, but it is probably true generally. It is seldom stated whether they are valued at cost, at cost less a write-down or less a reserve, or at market value; and the relation between cost and market value is seldom indicated.

Now in the case of investment trusts or security companies it has become common practice to furnish a list of their security holdings, and there are at least some banks that do it. The United States Trust Company in New York has been doing it for a great many years; I believe the Corn Exchange Bank Trust Company in New York also does it. I don't know how far back its practice goes. It seems to me that if banks would disclose more completely the nature of their holdings of investments in many cases it would avoid that kind of invidious comment that comes from lack of adequate knowledge.

It is common knowledge that the regulatory bodies have permitted banks to carry investments at amounts in excess of market quotations. This policy may have been a necessary expedient during the period of abnormally depressed security prices, through which we have passed during the past several years, for the purpose of permitting the statutory banking authority to determine whether or not a bank should be permitted to remain open. However, for the purpose of the financial statements the market value of the investments should at least be indicated in parenthesis or as a footnote. That may sound revolutionary to many banks that have never followed the practice, but I must confess I have never been able to see any logical reason why banks should not follow the same accounting policies as investment trusts or life or fire insurance companies, which as a rule disclose their investments in detail. If the basis of valuation and the market value are not shown, the securities might at least be listed in detail so that a reader of the financial statements may compute the market value if he desires to do so.

It is usually argued that the market quotations are not shown because the banks will not have to sell their investments at the existing depressed levels. This is true as long as the bank retains the confidence of its depositors but, as I have previously indicated, will this confidence not be best maintained if no vital information is withheld from the depositors? A credit man at a bank, in analyzing the financial statement of a prospective borrower,

would give little consideration to the item of investments on a balance sheet as a worth-while asset if the market quotations were not revealed, and he would ordinarily expect it to be revealed without merely giving him a list of the securities, so that he could make his own computations.

Furthermore, it is to be borne in mind that the securities owned by a bank are not necessarily for long-term holding; in fact, the contrary is usually true. The intention is to have assets available which may be quickly realized upon to meet abnormal withdrawals by depositors. That was one of the conditions that, during the last several years, doubtless depressed the price of bonds and caused the banking authorities to adopt the expedient of not requiring the banks to write the securities down to market values.

However, it is to be borne in mind that the depreciation of prices in the bond market, for instance, was not by any means due merely to the great amount of selling that went on; there was, with respect to certain classes of securities, more or less question as to what the future was for those securities. I have looked through the quoted prices of bonds listed on the New York Stock Exchange repeatedly during the last several years and I have noticed that those bonds, which one would be willing to buy, hold and feel that he was making a gilt-edged investment, as, for instance, bonds of the American Telephone and Telegraph Company and its subsidiaries, and bonds of other companies in just as good a financial condition, while they were somewhat depressed in price, after all they didn't yield such a very high rate of return. The largest reduction in prices of bonds occurred in the railroad field, and the thing that was agitating investors there was not merely the offering of a great many bonds for sale, because people needed cash regardless of the merits of the bonds, but whether the railroads with the problems of truck competition, heavy burden of taxation, reduced volume of traffic, both passenger and freight, were (even with improved business) going to come back to their former position or whether, on the contrary, the diversion of business to trucks (both motor trucks for carrying freight and the bus lines and private cars which diverted passenger traffic) hadn't brought about a situation that would make many of the junior securities of railroads face reorganization in the period ahead.

In a comparatively few bank statements, the investments are carried at market quotations. In such cases the statements should show whether or not any unrealized appreciation is included. I was interested in coming across a statement of one trust company which is a member of the Federal Reserve system and which has an account called Special Reserve Account. This was a statement issued during the past

year; it had a star on the Special Reserve Account, and this footnote:

In April, 1933, Blank Trust Company adopted the policy of carrying all securities at the current market value. Since that time, the market quotations reflect an appreciation in value of blank dollars. In keeping with sound and constructive banking practice, our Directors decided that this appreciation should be carried as a special reserve against which any subsequent depreciation in market value may be charged.

Then it refers to a merger which had recently taken place and stated that the merged company was continuing to follow this policy.

It is customary for the banks to segregate on the balance sheet United States and other public obligations. As for other investments, I think a segregation should be made of those which are readily marketable and those which have no ready market. Mortgages on real estate and other real estate securities should be shown separately. Any investment in an affiliate and the investment in the stock of the Federal Reserve Bank should, of course, be segregated.

As for loans and discounts, bank statements do not usually separate the current from the frozen. I believe some such segregation should be made and that the statement should indicate the amount of reserve provided against doubtful loans. You have repeatedly heard bank men discourse on the statements of borrowers and refer to the great importance of segregating accounts receivable from customers which are overdue and which, if not actually doubtful of collection, are at least not collectible in the very near future. But, I think, it is very rare that such segregation is made with regard to the loans and discounts in bank statements.

The statement should also indicate the respective amounts of loans with collateral and of unsecured loans. Loans made for capital purposes, which are largely dependent upon new financing for repayment, might be segregated, although I realize that it is difficult to determine in a given case whether a loan is actually in that category, and the amount of loans eligible for rediscount with the Federal Reserve Bank might be indicated. Real estate loans should be segregated. Under the new Banking Act, loans to affiliates will not be common. If any remain, they should be shown.

The balance sheet should indicate the foreign assets as distinguished from the assets in this country. Loans and balances in countries subject to moratoria and "standstill" agreements should be shown separately, together with the reserve provided thereagainst. I well recall that when the first "standstill" agreement was made between the German banks or financial authorities, and the American, British and other non-German banks, about two years ago, there was a great deal of speculation, at least in downtown

New York, as to the amount of such loans various banks had among their assets. Very few of the institutions, even the strongest of them, disclosed that information in their statements.

I feel quite convinced that there is an instance in which definite information would have been reassuring, rather than harmful. In many instances, the amounts that were being guessed at were even larger than the substantial amounts which many of the institutions actually carried among their assets. The same principle, with respect to loans and balances in countries subject to moratoria and other "standstill" agreements, is applicable to cash in closed or restricted banks in this country.

Bank statements generally do not indicate the extent to which assets are pledged. Assets may be pledged to secure note circulation, to secure trust deposits, to secure loans with the Federal Reserve Bank, the Reconstruction Finance Corporation or other banks, or to secure governmental deposits. This information is of vital importance. Without it, a depositor is totally unable to ascertain the amount of assets available to meet his deposit liability. I looked over the published statements of some of the British banks, within the last day or so, and was interested to note that it is apparently the practice to indicate the amount of their investments which are hypothecated in any way (shown as a memorandum), usually parenthetically with the investment item.

The statement should indicate the basis of valuation of real estate owned by the bank and the amount of the depreciation reserve provided. Bank premises should be segregated from other real estate. If the bank's real estate is owned by a subsidiary it is equally important that this be shown and that the basis of valuation be indicated. The investment in, and deposit with, the Federal Deposit Insurance Corporation should be shown separately. I understand some banks have charged off the deposit as an expense. If not charged off, it is doubtful whether it can be considered anything more than a deferred charge.

Turning now to the liabilities, the deposits are generally shown without classification. The deposits may be classified in many ways with a view to indicating preferences, and probable stability. It is of the utmost importance that the statement at least show the deposits that are secured and those that have a preference. Just as it is impossible for a depositor to ascertain the assets available to meet his deposit unless he knows the amount of assets pledged and unpledged, it is impossible to ascertain his equity in the assets unless he knows the amount of the secured and preferred deposits, such as postal savings deposits, deposits of governmental subdivisions, in some cases deposits of trust funds, and so forth.

I was interested to note that Mr. Flahive, in his talk before the New York conference, to which I have already referred, suggested that a classification of deposits between government organizations, other banks, corporations, and individuals was more indicative of stability than a classification between time and demand deposits, on the ground that time deposits represented more "nervous" money and were less dependable than deposits subject to check, and that the accounts of individuals were more stable than other accounts. Thrift deposits might well be shown separately. Apart from any question of preference, they bear a higher rate of interest, and a segregation also has a bearing on the determination of stability.

Deposits under fiscal agency arrangements might be segregated, as there is a question whether they may be trust deposits. As for other liabilities, it is important that their nature be indicated and that if there are any loans, the statement indicate whether they are secured. R. F. C. capital notes or preferred stock should be indicated separately, and I think are so shown in practically all bank statements.

Not infrequently bank statements have a "reserve for contingencies" on the liability side of the statement. Sometimes this is shown among the liabilities, and sometimes it is included in the net worth, i. e., in those cases where the capital stock, surplus and undivided profits are added together to indicate the net worth. It is frequently impossible to determine the nature of this reserve. It may be required in full to reduce investments or loans to a fair value or it may be a true surplus reserve to provide against future contingencies. The balance sheet should certainly indicate the true nature of this reserve and the portion applicable to loans and investments, respectively, should preferably be shown as a deduction from the corresponding assets. In other words, if it is a valuation reserve, let it, so far as is feasible, be applied against the assets to which it does apply or, if that is not done, at least let it be described for what it is, a valuation reserve. I have already referred to the statement of one company which in that respect is quite satisfactory.

The balance sheet should indicate all contingent liabilities, including accommodation endorsements, unused balances of letters of credit, foreign exchange commitments and so on.

I have been much interested, too, in looking over the statements of the British banks, to which I have previously referred, as well as the statements of Canadian banks, to observe that it is the practice in those countries for the statements to be issued with the certificate of public accountants appended thereto. We have, in the years that have gone by, come to have so high a regard

for the banking practice of our British and Canadian friends and have envied the way they have come through the very trying period with almost no failures, that I venture to suggest that this practice of theirs might well receive serious consideration.

I don't know how many of you are aware of the fact that in one State of this country at least there is a statutory requirement that the savings banks of the State be periodically audited by certified public accountants. That is the State of Massachusetts. Any of you who are here from that area are aware of that fact because the law has been in force for some years.

That, gentlemen, completes the formal presentation of this subject, and if there are any questions which you wish to ask, I should be only too glad to discuss them with you.

Gifts to Institutions

By L. W. Fageant
(*New York Office*)

Aside from those which are supported by taxation, most universities, colleges, hospitals, welfare federations and other charitable institutions receive a considerable portion of their capital and income through gifts from individuals or groups of persons who are interested either in the general welfare of the institution or in some particular phase of its activities. The institution is benefited by the generous action of the donor, who has a right to expect that the gift will be efficiently administered in fulfilling the objects of the institution in accordance with the terms and restrictions (if any) imposed by the donor.

An attempt will be made in the following paragraphs to outline in a general way the duties and responsibilities of directors and officers of institutions with respect to gifts and to describe and differentiate between the commoner forms of gifts.

Legal Relationship

For this purpose it is unnecessary to discuss in detail the legal relationship between the donor and the management of a recipient institution. It is sufficient to note that the members of the board of directors or board of trustees are collectively in the position of a trustee or fiduciary charged with faithful performance. A donor who considers that his gift has not been properly administered may seek a remedy in a court of equity if the gift is limited to or coupled with a specific purpose. This right applies to a great many gifts. In cases where legal consideration is present, such as an undertaking by an individual to donate a certain sum of money if the management is successful in raising a similar amount from other donors, each party to the contract has a remedy at common law if the other party fails to perform its part of the contract, provided that the aggrieved party has performed its own part.

The management of an institution is seldom, if ever, placed in a position where it is obligated to accept all gifts or any particular gift offered to it, whether desirable or not. Acceptance is one of the elements which must be present to constitute a gift. The first responsibility of the directors or trustees and of the officers is to serve the institution, and their duty to a donor must be subordinate. It therefore follows that if the restrictions imposed by a prospective donor appear to conflict with the aims or policies of the institution, the management should confer with the prospective donor and

try to obtain his consent to a modification of the terms. Failing such amendment the management may, and in some cases at least should, decline to accept the gift. The importance of promptly and carefully conferring with a prospective donor in such circumstances cannot be overemphasized.

Although a living donor may be induced to modify or alter the terms of a tendered or proposed gift, the nature of a gift received through the will of a deceased person usually can be changed only with difficulty and by order or decree of a court of competent jurisdiction. Courts of equity have on occasion modified the conditions governing a gift by will, but in such cases the gift was applied by the court to conform as nearly as possible with the construed general intention of the donor. Such modifications are made only when the gift cannot be used according to a strict construction of the expressed intention of the donor. It should be noted, moreover, that this rule (known as the cy-pres doctrine) is not recognized by some states.

It is not intended in the preceding paragraphs to indicate or suggest that offerings to or acceptance of gifts by institutions are or should be made the subjects or objects of controversies. Both parties to the transaction desire to benefit the institution. Donors are usually eager or willing to confer with and seek advice from representatives of the institution when considering the nature and amount of a substantial donation contemplated to be made either immediately or upon the death of the donor. In ordinary circumstances the maximum benefit will be obtained when the management is permitted by the donor to name, or at least to influence, the purpose for which the donated money or other property is to be used.

Classes of Gifts

As the terms "fund," "fund assets" and "plant" will be used frequently in this article it appears advisable briefly to define them. The term "fund" means the present principal of a sum received for the purpose of producing income, or the present balance of a sum received or earned which is expendable for general purposes or for a specified purpose. The amounts of present balances of funds appear therefore on the liability or credit side of the balance sheet. The term "fund assets" is used for the assets representing a fund or a group of funds of similar character. The term "plant" means the physical property (land, buildings and equipment) as distinguished from the property constituting the investment of endowment and other nonexpendable funds.

Gifts to institutions are either expendable or nonexpendable—a very important distinction. Expendable gifts mainly relate to plant and current operations, while nonexpendable gifts constitute endowment. If no restrictions of any kind are im-

posed by the donor, the management may use a gift for that purpose which, in its discretion, will be of most benefit to the institution.

If a gift has been accepted for a particular project such as the erection of a new hospital building or a new college gymnasium, care should be exercised to ensure that the gift is expended for that project and no other and that construction is started and completed within a reasonable time. What constitutes a reasonable time will of course depend upon the circumstances of each case. Donations for plant purposes received without specification as to any particular project may be merged with others of a similar nature and expended for plant in due course.

If a considerable amount of cash is held with respect to plant funds, either specific or general, it may be temporarily invested in readily marketable securities with high ratings. Extreme care should be exercised in arriving at the decision to invest and in the selection of securities which are safe and readily marketable, since the object and responsibility of the management is to acquire plant and the income to be earned from the securities temporarily held is of secondary importance. All of the income earned on the securities should be added to the respective plant funds, either specific or general as the case may be.

Expendable donations, other than plant funds, fall naturally into the classification of general or current funds in contrast to endowment funds which constitute capital. Current funds contributions are of two kinds—restricted as to use and unrestricted. The responsibility of the management with respect to restricted expendable funds is to disburse the donated money strictly in accordance with the wishes of the donor. Steps should be taken to ensure that the cash will be available when needed and that it is not in the meantime disbursed for any purpose other than that for which it was designated.

Unrestricted Gifts

When an institution has sufficient income to meet its current expenses, the receipt of a substantial unrestricted legacy or gift may make it advisable to allocate a part of the amount received to plant funds for the erection of a new building and invest the remaining part of the gift in order to provide income for the maintenance of such building. If so, consideration should be given to the activities which are to be housed in the new building. If a department which has lacked adequate space in the past is to occupy all of the new building in the future, without considerable expansion of its functions, it is probable that the budget of this department will not be affected materially by the change of location and it is therefore unnecessary to provide additional income for it. However, if the operations of this department are to be

expanded or if a new department is to be inaugurated, the question of its income is important. If difficulties are encountered in attempting to provide the necessary income it may be expedient to modify the plans or to defer construction until further gifts are received.

A large unrestricted bequest or gift may be received by an institution at a time when it is not in immediate need of income to meet obligations and when, in the opinion of its directors, it is inadvisable to increase its plant or expand its activities. It may seem to the reader that this is a rare occasion, especially in view of the hard times through which many institutions, in common with the community at large, have passed in recent years, but this condition is not so uncommon as might be supposed. The decision by the directors not to increase the plant or expand the activities of the institution should not be assumed to indicate stagnation or lack of a progressive spirit, but rather a recognition of the responsibility to safeguard the welfare of the institution. Possibly the institution has just completed a program of expansion or has just recovered from an embarrassing position caused by absence of definite policies or by mistaken policies adopted in the past. It may be simply that a considerable period of time is required to decide on a policy with respect to a large gift. The last situation has been recognized by some donors, who have stipulated that allocation of a gift or bequest made by them remain in abeyance for a period of years during which the management shall give consideration to the ultimate purpose for which the gift is to be used. Such a stipulation by a donor constitutes a restriction for the time being and the gift or bequest should be treated as a special fund.

In the circumstances outlined in the preceding paragraph the management may well add the amount of the unrestricted bequest or gift to unrestricted funds functioning as endowment. This term should not be confused with endowment proper. Unrestricted funds functioning as endowment consist of those bequests and gifts which have been received without restrictions of any kind and which have not been allocated to either endowment, plant or current funds. Income allocated to unrestricted funds functioning as endowment is wholly unrestricted as to use.

Memorial Gifts

Many donors desire to honor in perpetuity the memory of one or more persons when making a gift to an institution. Although it is usual in such cases to create an endowment fund it is not necessary or desirable to place this restriction on the gift. Perpetual memory of the donor's name, or the names of those persons in whose memory a wholly unrestricted gift is made, can be readily attained by suitably naming the fund, recording it in such name

permanently on the books and including it in all future published reports or year books of the institution. The use of a special book to record all gifts to the institution will facilitate this procedure. Such an unrestricted gift may be used for any purpose or added for the time being to unrestricted funds functioning as endowment. The purpose for which such a gift is used should be permanently recorded and published.

Disbursement of assets representing unrestricted funds temporarily functioning as endowment should be applied to the constituent funds in order of date of receipt. If and when the assets of the constituent funds are used for plant or current purposes, such use should be recorded permanently on the books, including the gift book, and in subsequently issued published reports or year books.

Endowment Funds

Endowment funds are permanent and nonexpendable. The act of endowing, or providing endowment for, an institution may be defined as the furnishing of money or its equivalent as a permanent fund for providing support. It therefore follows that endowment funds assets should not be expended for plant or used for current operations. It is unwise to advance or loan such assets even temporarily for such purposes.

Endowment funds should remain invested and intact, and the income from investments should be used in accordance with the terms and restrictions (if any) imposed by the donors. Income from unrestricted endowment funds assets may be used for any institutional purpose. Although it is generally used to meet current operating expenses, there is no objection in principle to its allocation to plant funds.

The assets representing the endowment and other nonexpendable funds of an institution constitute its capital and should be carefully invested in accordance with a sound plan to produce income in the form of either interest, dividends or rents. No attempt will be made to indicate or decide which class of investment may be preferable, but such investments as are made should be in the securities of concerns or enterprises wholly unconnected with the institution. It is unwise, not to say improper, to "invest" such assets in dormitories, faculty houses or similar auxiliary enterprises, even though such activities may produce income.

Investment Policy

In formulating an investment policy, it must be recognized that safety of principal is a more important factor than the rate of income to be earned, but this concept should not be carried to an extreme. Possibly the best plan is to obtain, so far as is possible, a fair rate of return combined with safety through investment in a variety of high-grade securities.

It has become recognized that the securities representing investments of endowment funds and of unrestricted funds functioning as endowment may properly be treated as one group. Similar treatment may be given to those investments related to unexpended plant funds and of those related to current funds. If, however, gifts are accepted with the stipulation by the donor that they must be separately invested and the profits or losses on disposition of such investment securities applied to the principal amounts of the funds, it is necessary to fulfill these obligations. Otherwise, it is both unnecessary and undesirable to allocate to any fund or group of funds of similar nature either specific investments or the profits or losses resulting from disposition of securities. A net profit or loss of this nature should be treated as a separate item within the related class of funds. If a net loss is sustained in any period with respect to the investments of endowment and other nonexpendable funds, consideration should be given to making up the loss from either current funds' surplus or unrestricted funds functioning as endowment.

As mentioned previously, extreme care should be exercised in temporarily investing assets representing plant funds to ensure that no loss on disposition is sustained. Any profit or loss on sale of plant fund investments may be allocated to the principal of plant funds, but it is preferable, when feasible, to charge such losses either to unrestricted funds functioning as endowment or to general (current funds) surplus.

The main advantages arising from the investment procedures outlined are (a) diversification of investment for all of the funds; (b) assets representing funds may be kept more constantly invested than would be possible if specific allocations were made; (c) sales of any securities may be made without it being necessary to reallocate thereto the fund or funds which it is either necessary or desirable to disburse; (d) each fund or group of funds receives its just proportion of income realized, based on the amount of its principal sum, instead of an amount based on the rate of income earned on securities allocated to it; and (e) net losses on sales of investment securities are not charged against the principal sums of endowment funds or plant funds unless or until unrestricted funds are exhausted.

Gifts of Securities

When bonds, stocks or other securities are offered as gifts to an institution, the question naturally arises as to the value of such securities. The importance of this question varies with the proposed terms of the gift. The donor may desire to give certain securities to an institution for either endowment, plant or current operations without being particularly interested in the amount to be realized from sale of the securities or desiring to establish a fund

of a definite amount. In such a case, if the terms of the gift are satisfactory and the securities contain no features which may cause present or future embarrassment or liability, the management need not hesitate to accept the securities and either sell them or retain them in its portfolio, following whichever course seems best in view of the nature of the securities received. If immediately sold, the value of the securities is determined by the sale price; if retained, the market value (or, if not readily marketable, then the best estimate of value) at date of receipt should be used.

Institutions sometimes make standing offers to prospective donors to establish specific endowment funds upon receipt of definite sums of money. Examples of such funds are endowed hospital beds and endowed college or university professorships. A donor may desire to establish such an endowment or to finance the erection of a building to the extent of a certain amount. When a fund of a definite amount is desired by the donor, the present market value and the degree of marketability of securities which may be offered to the institution are important and should receive careful consideration, especially if the securities are of a nature which the management would not desire to retain in its portfolio. The acceptance of securities at amounts in excess of currently realizable market values should be avoided.

Whenever a donor wishes to establish an endowment fund of a definite amount the institution should receive either cash or an equivalent amount or securities which can be readily converted into cash of an equivalent amount. If such assets are not received or forthcoming, the management should confer with the prospective donor with a view to obtaining consent to changing the nature of the gift or reducing the amount of the proposed fund, whichever course seems best in the circumstances. If the donor will not consent to such action the gift should not be accepted. Cases of this unfortunate kind sometimes arise with respect to endowment and other funds of specified amounts created by wills of deceased persons. The terms of the bequest cannot be changed, as the administrator of the estate is governed by the will, and the management of the institution must decide either to refuse the bequest or to establish a fund of the specified amount and accept assets of a lesser value with a hope, usually unjustified, that the value will increase in the future. In most cases the better course appears to be to decline to accept the bequest even though the institution may be in great need of capital and income.

Once established, the specified amount of the fund should in ordinary circumstances remain constant; it should be increased only if and when the donor or some other person makes an addition to it. Con-

trariwise, its nature as a permanent fund precludes its reduction except in circumstances which necessitate a proportionate reduction of the principal sums of all of the endowment funds after other funds have been exhausted. It is unfair to the other donors and patrons of an institution to establish a fund at an amount in excess of the value of securities received with respect to the fund, because in all probability the securities will eventually realize less than the stipulated amount of the fund and the difference will have to be made up from other gifts or revenue. In an extreme case, the amount of the loss to be absorbed might prove to be so large as to necessitate a proportionate reduction in the principal sums of all of the endowment funds (assuming endowment fund investments are consolidated) after the extinction of unrestricted funds functioning as endowment, net profit on former dispositions of investment securities and general current funds' surplus. It may be argued that some benefit must accrue to the institution from such an acceptance of securities provided they have any value at all, but the ill effects of such action may offset the benefit.

Aside from the total market value of the securities offered in relation to the specified amount of a fund to be established, the securities may be undesirable from the point of view of the institution's investment policy. They may yield a low rate of income or no income at all. A sound investment policy may indicate that they should be sold at once but disposition may be delayed due to reluctance to incur definitely the loss represented by the difference between the book amount (which must of course conform to the related amount of the endowment fund) and the amount which can be realized. Even though the securities may be sold eventually for an amount equal to the amount of the related endowment fund, it is doubtful whether the risk of disruption to the financial operation and status of the institution is justified.

Accounting System and Policies

One of the best aids to directors and officers of an institution in the performance of their duties and the discharge of their responsibilities is a well-designed set of accounts kept under the direction of a competent comptroller or chief accountant who has a good working knowledge of the principles involved in institutional finance and accounting. Boards of directors should fully appreciate the need of careful and competent accounting, as usually no member of the board is in a position to ascertain that gifts are being properly administered or used unless the records clearly reflect the nature and amount of each fund or group of funds and the transactions in respect thereof. The comptroller or chief accountant should be directly responsible to the board of directors or to a finance committee appointed

by the board, and should prepare and submit periodical financial reports to the board.

These reports should set forth the present financial position of the institution in comparison with the position at a prior date and the results of operations in comparison with the related budgetary figures. They should be accompanied by all other information requested by the board. In particular all gifts should be reported to the board with suggestions as to acceptance or refusal and recommendations as to classification of new funds and gifts.

Formal receipts, accompanied in some cases by letters, should be sent to all donors, but it is not expected that every gift to the institution will be the subject of deliberation by the directors. Gifts of a routine nature should be classified and allocated by the comptroller or chief accountant, or by the treasurer, if he be a full-time officer.

All gifts accepted should be recorded in the gift book. The importance of this record cannot be overemphasized. It should be made as complete a record as possible of all gifts to the institution. The book may contain several volumes and should be composed of strong material. Probably no index need be prepared, but items should be filed by names of donors in strictly alphabetical order and cross references noted.

Periodical examinations of the accounts of institutions should be made by independent firms of certified public accountants. Systems should be reviewed from time to time and, if necessary, improved so as to ensure that all pertinent information is brought into the records and that the accounts reveal to the management and other interested persons all of the information which they may require. Changing conditions sometimes make system revision desirable.

Although the scope of this article does not include outlining an accounting system for any particular type of institution, the following general principles applicable to all institutions may be cited:

(a) The accounting system should be modern. It should be as simple as possible but should provide adequate safeguards and methods of internal check.

(b) A definite policy should be established with respect to allowance for depreciation of plant funds assets. If it is considered necessary or desirable to make allowance for depreciation of buildings or equipment, such allowance should be in the form of a replacement fund represented by cash or investment securities. An allowance for depreciation resulting merely from a journal entry charging capital invested in plant and crediting an allowance account appears to serve no useful purpose. In ordinary circumstances probably the best plan is to let future generations provide funds for replacement of plant. If this

practice be followed, a conservative policy should be adopted with respect to replacements of plant. Only in cases where the new asset definitely has a greater value than the replaced asset should any amount of the expenditure be treated as an addition to physical plant.*

(c) Proper classification of endowment, plant and current funds is particularly important, and, if lacking, an analysis and survey of the funds should be made. Funds of a similar nature should be grouped and allocations of income made to groups of funds rather than to individual funds. It is not, however, the intention to suggest that any of the capital funds should lose their identity in the records.

(d) The practice of adding a portion of the income resulting from investments of funds to the principal sums of the funds is not recommended, unless directed by the donor. Building up the principal amounts from income appears to be ultra conservative as the responsibility of the management with respect to income from fund investments is to use such income in accordance with the wishes of the donors.

(e) The responsibility of the management with respect to agency funds, that is, funds held by the institution as a custodian, is limited to ordinary business care and prudence. All transactions relating to such funds should be recorded in the books of account.

Although institutional finance and accounting are not simple matters, well defined plans and policies, together with good accounting, will enable the management to operate effectively to the end that expenditures will be kept within the limits of income and every gift will be properly administered.

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* *Editor's Note:* The above paragraph should be regarded as an expression of personal opinion. The subject of allowances for depreciation of plant and equipment used in the operations of non-profit institutions, and especially those of whose income a considerable portion comes from gifts, is one on which a wide variety of opinions has been expressed. A final agreement on what may be regarded as good accounting practice has not yet been reached. As contrasted with the opinion above expressed, it is obvious that operating statements of hospitals and similar institutions which do not include allowances for depreciation of plant and equipment do not reflect the full cost of the service rendered by them, excepting to the extent that the cost of replacements otherwise chargeable against depreciation reserves are absorbed in expenses.

The L. R. B. & M. Journal

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The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvement; to encourage and maintain a proper spirit of cooperation and interest, and to help in the solution of common problems.

Bank Statements

During January of this year, when many banks were having their annual meetings of stockholders, the *New York Sun* contained an article which read in part as follows:

Stockholders of banks as the years pass are becoming more inquisitive about certain of the banks' assets and more hungry for detailed information about earnings. This year's batch of annual meetings is disclosing a desire for a breakdown of bank investment portfolios in public statements to a degree not heretofore disclosed by bank managements, as well as a wish that banks make public earnings reports more in the form of corporation income statements.

A year ago the First National Bank decided to provide its stockholders annually with an income statement which disclosed net operating earnings, other income and the sources from which derived, the operating expenses, taxes and miscellaneous debits, profits on securities and miscellaneous credits. This was appreciated by small shareholders in particular. Two or three years ago the Corn Exchange Bank Trust Company

began a practice of publishing the entire list of its investments as well as its earnings figures in detail.

This year there has been a general statement, at most banks, of "net operating earnings" as distinguished from aggregate profits from all sources including security profits, recoveries and miscellaneous other receipts. One of the most complete statements of this kind is that issued by the Manufacturers Trust Company. Though bank stockholders as a whole have not yet demanded it, many banks expect the time may come when they may have to have some standard form of income report to stockholders which will not only give detailed information but will also give comparisons with previous years so that the shareholders will be able to see just where improvement, if any, was recorded in the earnings of their institution.

This comment on the financial statements submitted by banks to their stockholders brought to mind a talk which Mr. Staub had given some four years ago at the request of the Second Eastern Regional Conference of the National Association of Bank Auditors and Comptrollers. The phases of the subject which are touched upon in the above mentioned newspaper article were among those upon which Mr. Staub commented in his talk. Because of the limited character of the financial statements which up to that time it had been the practice of most banks to issue, it seemed likely that the adoption of the suggestions made for amplification and improvement of such statements would come but slowly.

It is therefore all the more interesting to note that some of the suggestions then made have already come into use. For example, the disclosure of the pledge of bonds to secure certain classes of deposits or for other purposes is now general. Many banks now submit an income statement to their stockholders, though in most instances this is still in quite condensed form.

In view of the interest in the subject, as indicated by the recent article in the *Sun,* and since Mr. Staub's talk was not published in any periodical at the time it was given, it is being published in this issue of the L. R. B. & M. Journal.

Accounting Conscious

In the November, 1937 issue of our Journal editorial mention was made of various conditions and circumstances which indicate that our times are "accounting conscious." Several recent developments further emphasize this fact.

The Board of Governors of the Federal Reserve System has promulgated regulations permitting national banks to establish a common trust fund. The term "common trust fund" is defined in the regulations as meaning "a fund maintained by a national bank exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank in its capacity as trustee, executor, administrator, or guardian." One sec-

tion of the regulations reads as follows:

(3) *Common Trust Fund to be audited annually.*—A bank administering a Common Trust Fund shall, at least once during each period of twelve months, cause an audit to be made of the Common Trust Fund by auditors responsible only to the board of directors of the bank. The report of such audit shall include a list of the investments comprising the Common Trust Fund at the time of the audit which shall show the valuation placed on each item on such list by the trust investment committee of the bank as of the date of the audit, a statement of purchases, sales and any other investment changes and of income and disbursements since the last audit, and appropriate comments as to any investments in default as to payment of principal or interest. The reasonable expenses of any such audit made by independent public accountants may be charged to the Common Trust Fund.

The bank shall, without charge, send a copy of the latest report of such audit annually to each person to whom an accounting of the trust participating in the Common Trust Fund ordinarily would be rendered or shall send advice to each such person annually that the report is available and that a copy will be furnished without charge upon request.

In the article appearing in the *New York Sun,* from which a quotation is given in the preceding editorial, it was stated that "at some of the meetings this week requests were made that bank managements employ public accountants or outside auditing firms for their annual statements to shareholders." The services of public accountants are used by some banks, particularly as representatives of, or assistants to, examining committees of boards of directors which are required by law to make periodic examinations of the affairs of their banks or trust companies.

No disparagement of the examinations made by such governmental agencies as the Comptroller of the Currency or the state banking departments need be implied in the observation that the examinations by public accountants on behalf of boards of directors of banks serve a purpose which cannot be fully served by the examinations made by a governmental agency. The concern of such an agency is primarily for the depositors and the compliance with requirements of the banking laws and while it is not intended at all to imply that the interests of depositors are antagonistic to those of directors and shareholders, it seems important that there be an examination which the two latter classes may regard as having especially their interests in view.

Fortieth Anniversary Issue

It had been expected to devote the March issue of our JOURNAL to the fortieth anniversary of the founding of the firm. It has not, however, been possible to prepare the historical articles in time for the current issue. A subsequent issue will therefore be devoted to the commemoration of that anniversary.

Notes

Mr. Keast has been reappointed a member of the California State Board of Accountancy for a term of four years beginning January 15, 1938. This makes his fourth consecutive term, his original appointment having been made in 1926.

The following reference to the recent activities of Mr. Marsh of our Pittsburgh office as President of the National Association of Cost Accountants is taken from a recent issue of the *N.A.C.A. Bulletin:*

> By the time this reaches you, President Marsh and I will be on the last lap of our journey through the chapters, the long trip to the coast and through the south. It has been a very interesting and enjoyable year. Mr. Marsh and I both feel sincerely appreciative of all the consideration and hospitality which has been extended to us in our visits to the chapters, and I know it is the feeling of both of us that we would like to do it all over again.
>
> Our most recent trip was to Minneapolis, South Bend and Chicago. In Minneapolis we encountered a taxi strike, in making South Bend we missed a train, and in Chicago we ran into a blizzard, but none of these acts of Providence dampened our enthusiasm for meetings, board and chapter, which we attended in each of these cities. We were especially entertained in Minneapolis by a dramatic production under the leadership of Mr. E. E. Herrick; in South Bend we were much impressed by the orderly operation of one of our newest chapters; and in Chicago, in addition to the chapter and board meeting, we had a long session with the Convention Committee. Splendid progress has been made in local arrangements and everything is developing in swell shape for the convention in June.

The Connecticut Society of Certified Public Accountants reprinted in its publication, *The Connecticut C.P.A.,* the article by Mr. Fischer on Qualifying as an Expert and Testifying Before the Courts, which was originally written for *The Spokesman,* the official organ of The Pennsylvania Institute of Certified Public Accountants.

Mr. Keller has for many years been deeply interested in the work of the English-Speaking Union, and has in turn aroused the interest of a number of our partners in the Union so that some of them have also been members for many years past. The aim of this organization is expressed as being "to draw together in the bond of comradeship the English-speaking peoples of the world."

In a recent issue of *The Landmark,* the organ of the Union, Sir Evelyn Wrench, who has devoted many years to the organization and development of the Union, made the following mention of the reception of himself and Lady Wrench on a recent visit to the United States:

> A crowded programme in Boston arranged by Mr. Allan Forbes included a

visit to Governor Hurley, of Massachusetts, in the State House, a call on President Conant, of Harvard, one of the most remarkable men in the American University world, a day spent with old friends, Mr. and Mrs. Allan Forbes, at Dedham, and a happy lunch with Mr. and Mrs. Carl T. Keller at their house, where we met Admiral Richard E. Byrd and Mrs. Byrd.

Charles J. Dunston, who was an alumnus of Duke University, and who had been a member of our New York staff for almost four years, passed away in Norfolk, Virginia, on March 4th. His work as a member of our staff had been conscientious and intelligent and his untimely decease is deeply regretted.

The following members of the staff of the New York office recently passed the C.P.A. examinations:

A. R. Almquist	A. J. Johnson
H. E. Alspach	J. H. Kirby
H. J. Brown	F. J. Mack
D. G. Colquhoun	C. Ondrick
J. B. Fish	G. B. Talmage

Mr. E. G. Rutherford of our Rockford office and Mr. Charles L. Schmidt of our Cincinnati office have passed the C.P.A. examinations of their respective states.

The following members of the staff of our New York office have been admitted to membership in the New York State Society of Certified Public Accountants:

T. A. Eliason
D. LeR. Evans
Edwin P. Noell
R. L. Dickson (Associate)
R. H. Schlereth (Associate)

Mr. C. F. Mills of our Philadelphia office staff was recently admitted to membership in the Pennsylvania Institute of Certified Public Accountants.

Mr. J. H. Kirby of our New York staff has been admitted to membership in the National Association of Cost Accountants.

The extent to which the world is interrelated today is well illustrated by the following incident. When the three sisters of the King of Albania recently visited New York the royal party was in charge of Mr. Assim Jakova. After attending Robert College in Istanbul, Turkey, Mr. Jakova came to this country some ten years ago, attended at Brown University for a year, living during that time with Mr. Bell's family in Rhode Island, and then spent some months in our New York office to gain some familiarity with American business methods. He is now a member of the Albanian parliament.

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